# Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Penort

	ting F er P.A. 2 of 19				s Rep	ort						
	emment Type			Village	✓Other	Local Governme		ER FIRE DE	PARTMENT	County		
Audit Date 3/31/05	Audit Date											
accordan	ice with th	ne S	tateme	ents of	the Govern	imental Accou	unting Stan		GASB) and th	e Uniform	Repor	ents prepared in rting Format for
We affirm												
1. We h	nave comp	lied v	with th	e Bulleti	in for the Au	udits of Local L	Jnits of Gov	ernment in Mic	higan as revise	ed.		
2. We a	are certifie	d pub	olic ac	countant	ts registere	d to practice in	Michigan.					
	er affirm thats and reco				responses t	nave been disc	closed in the	e financial state	ments; includir	ng the notes	, or in	the report of
You must	check the	арр	licable	box for	each item t	below.						
Yes	<b>√</b> No	1.	Certa	in comp	onent units	/funds/agencie	es of the loc	al unit are excl	uded from the	financial sta	ateme	nts.
Yes	✓ No	2.		e are ac of 1980).		deficits in one	e or more o	f this unit's uni	reserved fund	balances/re	tained	earnings (P.A.
Yes	✓ No	3.		e are in: nded).	stances of	non-compliand	ce with the	Uniform Acco	unting and Bu	dgeting Ac	t (P.A.	. 2 of 1968, as
Yes	<b>√</b> No	4.						her an order i ency Municipal		the Municip	al Fin	ance Act or its
Yes	<b>√</b> No	5.						do not comply amended [MC	-	requiremen	nts. (P	.A. 20 of 1943,
Yes	√ No	6.	The l	ocal unit	t has been o	delinquent in d	listributing t	ax revenues tha	at were collecte	ed for anoth	er tax	ing unit.
Yes	<b>√</b> No	7.	pens	ion bene	efits (noma	il costs) in the	current ye		s more than 1	00% funde	d and	ent year earned the overfunding ).
Yes	✓ No	8.		local un _ 129.24		dit cards and	has not ac	dopted an appl	icable policy a	as required	by P.	A. 266 of 1995
Yes	✓ No	9.	The !	ocal uni	t has not ac	lopted an inve	stment polic	cy as required b	y P.A. 196 of	1997 (MCL	129.95	i).
We have	e enclose	i the	follo	wing:					Enclosed	To Be Forward		Not Required
The lette	er of comm	ents	and r	ecomme	endations.				1			
Reports	on individ	ual fe	ederal	financia	l assistance	programs (pr	ogram audi	ts).				✓
Single A	udit Repo	rts (A	SLGL	J).								✓
1	Public Accoun			-	PAS							·-
Street Add				, 0				City SAGINAW		State MI	2IP 486	338
Accountan	nt Signature	n	iti	hd.	Bon.	heaver	re			Date 12/22/05	5	

Bay County, Michigan

# FINANCIAL STATEMENTS

March 31, 2005

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# INDEPENDENT AUDITORS' REPORT

To the Pinconning/Fraser Fire Department Board Pinconning, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Pinconning/Fraser Fire Department, as of and for the year ended March 31, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pinconning/Fraser Fire Department Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pinconning/Fraser Fire Department, as of March 31, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pinconning/Fraser Fire Department's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 9, the Fire Department has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements as of April 1, 2004.

November 15, 2005

Berthiaume & Co,

# GOVERNMENTAL FUND BALANCE SHEET – STATEMENT OF NET ASSETS

March 31, 2005

	Balance Sheet Modified Accrual		Adjustmen (Note 2)		Ne	et Assets - ll Accrual
ASSETS:						
Cash and cash equipments	\$	16,540	\$	-	\$	16,540
Capital assets, net of accumulated depreciation: Assets being depreciated		_		330,136		330,136
		16,540		330,136		346,676
LIABILITIES AND FUND EQUITY:						
Liabilities:						
Accounts payable Notes payable:		620		-		620
Due within one year		-		700		700
Due in more than one year		-		-		
				700		1,320
Fund Balance:						
Unreserved/undesignated		15,920		(15,920)		
	\$	16,540				
Net Assets:				220 426		220, 426
Invested in capital assets, net of related debt Unrestricted				329,436 15,920		329,436 15,920
Track and accorde			Ф	245 256	¢.	245 256
Total net assets			\$	345,356	\$	345,356

# STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2005

	Revenu Expend Modi Acci	ditures - ified	,	justments Note 2)	A	tatement of Activities - ull Accrual
REVENUES:						
Contributions from participating units:						
Fire runs	\$ 2	2,300	\$	-	\$	22,300
Operations	8	6,451		-		86,451
Equipment purchases		2,100		-		2,100
Hovercraft operations		999		-		999
Truck purchase	3	6,000		-		36,000
Contributions – private source		100		-		100
Interest		426		-		426
Sales of assets		2,001		-		2,001
Miscellaneous		158		-		158
	15	0,535		-		150,535
EXPENDITURES/EXPENSES:						
Public Safety:						
Operations	9	5,929		_		95,929
Depreciation		-		23,238		23,238
Capital outlay		2,429		(2,429)	)	-
Debt service	3	6,000		(36,000)	)	-
	13	4,358		(15,191)	١	119,167
Change in fund equity/net assets	1	6,177		(15,191)	)	31,368
Fund equity (deficit)/net assets, beginning of year		(257)		314,245		313,988
Fund equity/net assets, end of year	\$ 1	5,920	\$	299,054	\$	345,356

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Fire Department included in the basic financial statements conform to U.S. generally accepted accounting principles applicable to state and local governments.

#### A. Reporting Entity –

The Pinconning/Fraser Fire Department operates under a joint service agreement created by the City of Pinconning, the Township of Fraser, and the Township of Pinconning. The agreement was created in 1993 in order to maintain and operate a joint fire department for the purpose of providing and furnishing fire protection within the geographical boundaries. The Fire Department is governed by an appointed Administrative Board with each unit of government appointing two members to the Board whose terms shall be six years.

#### B. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information of all activities of the Fire Department. The Pinconning/Fraser Fire Department is accounted for in one governmental type fund.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fund (modified accrual) statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

#### D. Assets, Liabilities and Net Assets or Equity -

**Cash Equivalents** – Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Capital Assets – capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Fire Department as assets with an initial, individual cost of more than \$5,000 if acquired prior to April 1, 2004 and \$1,000 if acquired after April 1, 2004 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following:

	<u>r ears</u>
Fire Trucks	20 to 30
Other Equipment	10 to 15

**Deferred Revenues** – In both the government-wide and in the fund (modified accrual) financial statements, revenue received or recorded before it is earned is recorded as deferred revenue. In addition, in the fund statements, revenues that are not both measurable and available are recorded as deferred revenues. The Fire Department has no deferred revenues as of March 31, 2005.

**Long-Term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement.

In the fund financial statements, these items are recorded as an expenditure when paid.

**Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

## NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FINANCIAL STATEMENTS

A.	Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statements of net assets.	
	Fund balance, March 31, 2005	\$ 15,920
	Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	
	Add – capital assets Deduct – accumulated depreciation	542,429 (212,293)
	Long-term notes payments that are not due in current period, therefore, not reported in the fund (modified accrual) activities	 (700)
	Net assets, March 31, 2005	\$ 345,356
В.	Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities.	
	Net changes increase (decrease) in fund balance – modified accrual, for the year ended March 31, 2005	\$ 16,177
	The fund (modified accrual) statements report capital outlay as expenditures. However, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
	Add – capital outlay Deduct – depreciation	2,429 (23,238)
	The repayment of the principal of long-term note consumes current financial recourses in governmental funds; however, has no effect on net assets	 36,000
	Change in net assets, for year ended March 31, 2005	\$ 31,368

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

#### NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Uniform Budgetary and Accounting Act, PA 2 of 1968, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the year, the Fire Department incurred no expenditures which were in excess of the amounts appropriated.

#### **NOTE 4: DEPOSITS AND INVESTMENTS**

#### Deposits -

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; local government investment pools; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provided that deposits or governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of March 31, 2005, the Fire Department only maintained one checking account with a carrying value of \$16,540, and a bank balance of \$30,235. Of the bank balance, \$30,235 was FDIC insured.

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

#### **NOTE 5: CAPITAL ASSETS**

Capital assets activity for the year ended March 31, 2005 was as follows:

	_	alance at April 1, 2004	A	dditions	Del	etions	alance at Iarch 31, 2005
Capital assets, being depreciated:							
Vehicles	\$	406,500	\$	-	\$	-	\$ 406,500
Equipment		133,500		2,429		-	135,929
		540,000		2,429		_	542,429
Less accumulated depreciation for:							
Vehicles		100,055		14,217		-	114,272
Equipment		89,000		9,021		-	98,021
		189,055		23,238		-	212,293
Capital assets, net	\$	350,945	\$	(20,809)	\$	-	\$ 330,136

Depreciation charged, to public safety expense for the year was \$23,238.

## NOTE 6: LONG-TERM DEBT

The following summary of the changes in the long-term debt (including current portion) of the Fire Department for the year ended March 31, 2005:

	$\mathbf{A}_{\mathbf{J}}$	ance at pril 1, 2004	Additio	ons	D	Peletions	 alance at arch 31, 2005	W	Due 'ithin e Year
<b>Fire truck loan.</b> The loan is payable in 59 monthly installments of \$2,717, on the 27 <sup>th</sup> day of the month at an interest rate of 5.4%	\$	36,700	\$	-	\$	(36,000)	\$ 700	\$	700

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

#### **NOTE 6 – LONG-TERM DEBT, continued**

The Pinconning/Fraser Fire Department pays the loan payable under a joint agreement created by the City of Pinconning, the Township of Fraser, and the Township of Pinconning. Each entity agreed to contribute \$12,000 per year for approximately six years. Each entity has pledged its full faith and credit as collateral for the debt.

The annual requirements to amortize long-term debt outstanding at March 31, 2005, are as follows:

	Princ	ipal	Interest		Ī	Total
2006	\$	700	\$	3	\$	703

#### **NOTE 7: FUNDING**

The Fire Department is financed each year by the participating municipalities. This funding represents approximately 98% of total revenues for the year ending March 31, 2005. Consequently, the Fire Department's ability to provide services is dependent upon the continuing support of those municipalities.

#### **NOTE 8: RISK MANAGEMENT**

The Fire Department is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Fire Department carries commercial insurance for liability and property loss.

The Fire Department manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The Fire Department pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

# NOTES TO FINANCIAL STATEMENTS, continued

March 31, 2005

#### **NOTE 9: RESTATEMENT**

For the year ended March 31, 2005, the Fire Department implemented the following Governmental Accounting Standards Board pronouncements:

#### **Statements:**

- No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
- No. 36 Recipient Reporting for Certain Shared Nonexchange Revenues An Amendment of GASB No. 33
- No. 37 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus
- No. 38 Certain Financial Statement Note Disclosures

The more significant of the changes required by the new standards include:

Basic financial statements that include:

- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Schedules to reconcile the find financial statements to the government-wide financial statements;
- Notes to the basic financial statements

As a result of implementing these pronouncements for the fiscal year ended March 31, 2005, the following restatements were made to net assets at March 31, 2004:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balance (deficit) as of March 31, 2004	\$ (257)
Add: capital assets	540,000
Less: accumulated depreciation on capital assets	(189,055)
Less: notes payable	 (36,700)
Net assets as of March 31, 2004, as restated	\$ 313,988



#### GENERAL FUND

# **BUDGETARY COMPARISON SCHEDULE**

March 31, 2005

	A	Original/ Amended Budget	Actual	F	variance avorable vavorable)
REVENUES:					
Contributions from participating units	\$	154,050	\$ 147,850	\$	(6,200)
Interest		100	426		326
Contributions – private source		-	100		100
Sale of assets		-	2,001		2,001
Miscellaneous		-	158		158
		154,150	150,535		(3,615)
EXPENDITURES:					
Operations		106,950	95,929		11,021
Capital outlay		10,400	2,429		7,971
Debt service		36,000	36,000		-
		153,350	134,358		18,992
Change in fund equity		800	16,177		15,377
Fund equity (deficit), beginning of year		(257)	(257)		
Fund equity, end of year	\$	543	\$ 15,920	\$	15,377



# SCHEDULE OF OPERATING EXPENDITURES

Year Ended March 31, 2004

## **OPERATING EXPENDITURES:**

Administrative salaries	\$	7,884
Fire fighting fees	Ψ	22,044
Payroll taxes		2,126
Workers' compensation insurance		4,325
		4,323 771
Office supplies		
Operating supplies		1,312
Tools/supplies		4,341
Radio equipment maintenance		1,452
Pump maintenance		1,018
Extinguisher maintenance		167
Audit		910
State reports		1,348
Membership dues		350
Telephone		2,327
Mileage		911
Training fees		1,115
Laundry service		172
Gas and oil		3,428
Insurance		10,258
Utilities		8,639
Water	389	
Training/personnel		1,210
Equipment maintenance		1,729
Vehicle maintenance		11,306
Medical requirements		5,808
Fire education		589
Total operating expenditures	\$	95,929



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## MANAGEMENT LETTER

To the Fire Board Pinconning/Fraser Fire Department

We have completed our audit of the financial statements of Pinconning/Fraser Fire Department for the year ended March 31, 2005, and have issued our report thereon dated November 15, 2005. As part of our examination, we made a study and evaluation of the Department's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Fire Department's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Department's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Fire Department taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of the Fire Department management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our audit.

Berthiaume & Company

Certified Public Accountants

Berthiaine & Co.

November 15, 2005